

AUDITED FINANCIAL STATEMENTS

LOUTIT DISTRICT LIBRARY

June 30, 2005

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Loutit District Library	County Ottawa
Audit Date June 30, 2005	Opinion Date September 14, 2005	Date Accountant Report Submitted to State: October 19, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

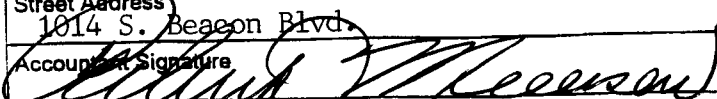
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1960).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Calvin Meeusen Company, C.P.A., PLLC			
Street Address 1014 S. Beacon Blvd.	City Grand Haven	State MI	ZIP 49417
Accountant Signature 			

CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	3
MANAGEMENT DISCUSSION AND ANALYSIS	4-7
FINANCIAL STATEMENTS	
Governmental Funds Balance Sheet/Statement of Net Assets	8
Statement of Governmental Fund Revenue, Expenditures and Changes in Fund Balance/Statement of Activities	9
NOTES TO FINANCIAL STATEMENTS	10-18
REQUIRED SUPPLEMENTAL INFORMATION	
Budgetary Comparison Schedules	20-22

CALVIN MEEUSEN COMPANY, C.P.A., PLLC

**CALVIN D. MEEUSEN
CERTIFIED PUBLIC ACCOUNTANT**

1014 S. BEACON BLVD. • GRAND HAVEN, MI 49417
(616) 846-6210 FAX (616) 846-5111

348 WAVERLY RD., SUITE 126 • HOLLAND, MI 49424
(616) 395-8477

INDEPENDENT AUDITOR'S REPORT

Loutit District Library
Grand Haven, Michigan

I have audited the financial statements of the governmental activities of the Loutit District Library, as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the Loutit District Library's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements listed in the table of contents present fairly in all material respects, the financial position of the governmental activities of the Loutit District Library at June 30, 2005, and the results of the operations of such activities for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (identified in the table of contents) is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, I did not audit the information and express no opinion on it.

My report of comments and recommendations has been submitted under date of September 14, 2005

 Calvin Meeusen Company C.P.A. PLLC

September 14, 2005

Loutit District Library
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005

Using this Management's Discussion and Analysis

This annual report is intended to supplement the District Library's financial statements. This is the second year that the financial statements have conformed with the GASB 34 accounting pronouncement. The Statement of Net Assets and the Statement of Activities provide information about the activities of the District Library and present a longer-term view of the District Library's finances. Fund financial statements (i.e. the Statement of Governmental Fund Revenue, Expenditures and changes in Fund Balance and the Governmental Fund Balance Sheet) tell how library services were financed in the short-term, as well as what remains for future spending.

The District Library as a Whole

The District Library's total net assets are \$3,525,560 as of June 30, 2005. Unrestricted net assets, which represent net assets that can be used to finance day to day operations, comprise 35% of that total. The current level of unrestricted net assets for our governmental activities stands at \$1,228,550 or about 63% of current year operating expenditures. Board restricted net assets of \$1,075,413 are attributable to the Capital Projects Fund. The balance of net assets (\$1,221,597) are capital assets net of related debt.

Table 1
Loutit District Library Net Assets

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Current Assets	\$ 2,424,735	\$ 2,054,803
Noncurrent Assets	-	403,592
Capital Assets net of accumulated depreciation	<u>1,872,837</u>	<u>1,990,287</u>
Total Assets	4,297,572	4,448,682
Current Liabilities	167,763	134,664
Long-Term Debt Outstanding	<u>604,249</u>	<u>679,006</u>
Total Liabilities	772,012	813,670
Net Assets		
Invested in Capital Assets (Net of Related Debt)	1,221,597	1,262,535
Board Restricted	1,075,413	1,209,289
Unrestricted	<u>1,228,550</u>	<u>1,163,188</u>
Total Net Assets	<u>\$3,525,560</u>	<u>\$3,635,012</u>

The District Library's net assets continue to remain healthy. The District Library has enough cash to fund normal operating expenses for the next twelve months.

Loutit District Library
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005

Governmental Activities

The District Library's total revenues in the General Fund were \$1,835,800, an increase over the prior year of \$85,792 or 5% over the prior year. Property tax revenue from the district library millage, which contributes 86% of the total revenue, increased by 5% over last year. Penal fine income decreased by 5% from the prior year.

General Fund expenditures increased this year, largely due to personnel, capital improvements (department relocations, carpet replacement, window replacement and story time room renovation) and an increase in the amount transferred to the Capital Projects Fund.

Capital Projects Fund expenditures this year were due mainly to the exploration by the District Library into the feasibility of combining the library building and the Community Center building for library purposes. Due to physical constraints of the two buildings and lack of community support, this project did not proceed. Additionally, there were two one-time write offs from this fund. Pre-construction capitalized expenditures for the building project on Robbins Road were written off as not recoverable since that project is no longer being considered. The pledges receivable attributable to the Robbins Road project were also written off as the library will not be pursuing the collection of these pledges.

Table 2
Loutit District Library Changes in Net Assets
Governmental Activities

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
<u>Revenues</u>		
General		
Property taxes	\$1,578,608	\$1,501,578
Fines and forfeits	146,008	153,501
Pledge contributions	-	458,962
Investment earnings	72,915	43,608
Miscellaneous	<u>56,476</u>	<u>36,643</u>
Total	1,854,007	2,194,292
<u>Expenses</u>		
Wages and benefits	816,801	758,563
Books and magazines (Note J)	8,978	9,554
Supplies	32,608	33,753
Lakeland Library Cooperative	38,936	39,802
Building and grounds	121,453	85,871
Professional fees	29,402	51,160
Capital Outlay	79,378	-
Depreciation	194,524	186,539
Foregone pledges	401,553	-
Writeoff of pre-construction costs	99,088	-
Transfers to other libraries	35,572	36,790

Loutit District Library
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005

Expenses-continued

Refunds	1,382	116,233
Fund raising, election	-	89,218
Other	<u>103,784</u>	<u>117,848</u>
Total	<u>1,963,459</u>	<u>1,525,331</u>
 Increase (decrease) in Net Assets	 (109,452)	 668,961
 Net Assets at July 1, 2004	 <u>3,635,012</u>	 <u>2,966,051</u>
 Net Assets at June 30, 2005	 <u>\$3,525,560</u>	 <u>\$3,635,012</u>

The District Library's Funds

Budget comparison schedules for the District Library's funds are on pages 20, 21 and 22, following the notes to the financial statements. The District Library creates funds as needed to manage its revenues for specific purposes as well as to account for certain activities.

The District Library's largest fund for the year ended June 30, 2005 is the General Fund. The General Fund receives the District Library's general revenues and pays the general operating expenditures. There is also a Capital Projects Fund which records the activities attributable to the planning of a building project. The Debt Service Fund records the activities concerning the payment of general obligation debt principal and interest.

General Fund Budgetary Highlights

Over the course of the year, the District Library Board amended the budget to take into account events during the year. The major amendments in the General Fund reflected increases in revenue items (including property taxes, interest, and donations) and more than anticipated expenditures in a number of areas, the most significant of which were equipment, capital improvements and retirement/sick pay benefits.

Overall, District Library expenditures stayed below budget. The General Fund's fund balance increased by \$70,858 for a total of \$1,261,812 at June 30, 2005.

Capital Assets and Debt Retirement

At June 30, 2005 the District Library had \$3,348,102, before accumulated depreciation of \$1,475,265, invested in a broad range of capital assets - land, leasehold improvements, books and other collections and furniture and equipment. We continue to pay down our general obligation debt for the land purchase according to schedule.

Loutit District Library
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005

Economic Factors and Next Year's Budgets

The District Library's budget for the next fiscal year projects property taxes, which is the largest source of revenue, to increase. State aid will probably decrease while penal fines should remain steady. Personnel costs, which remain the largest expenditure, will continue to increase slightly but no new positions are expected to be added. Changes in the maintenance responsibilities of the building may affect the expenditures for Building and Grounds.

As the District Library Board continues to consider options to address the District Library's space needs, expenditures may occur that have not been anticipated in the budget. On August 24, 2005 the District Library purchased the property on which it is located as well as the building in which it is housed. The Board plans to continue exploring opportunities to provide a solution to the Library's need for an expanded facility. Funds are available in the Capital Projects Fund to cover the unanticipated costs.

Contacting the District Library's Management

This financial report is intended to provide our citizens, taxpayers, patrons and other interested parties with a general overview of the Library's finances and to show the District Library's accountability for the revenue it receives. If you have questions about this report or need additional information, we welcome you to contact Sandie Knes, Library Director, at (616) 842-5560, extension 212.

Loutit District Library
Governmental Funds Balance Sheet/Statement of Net Assets
June 30, 2005

	<u>Modified Accrual Basis</u>			<u>Full Accrual Basis</u>
	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
Assets				
Cash and cash equivalents	\$1,328,814	\$1,080,579	\$ -	\$2,409,393
Accounts receivable	14,815	-	-	14,815
Pledges receivable (net) (Note F)	-	527	-	527
Capital assets (net) (Note C)	-	-	1,872,837	1,872,837
Total Assets	<u>\$1,343,629</u>	<u>\$1,081,106</u>	<u>\$1,872,837</u>	<u>\$4,297,572</u>
Liabilities				
Accounts payable	\$ 27,534	\$ 6,141	\$ -	\$ 33,675
Internal balances	448	(448)	-	-
Accrued liabilities	53,835	-	-	53,835
Deferred revenue (Note F)	-	527	(527)	-
Long-term liabilities				
Note payable-due within one year (Note E)	-	-	80,253	80,253
Note payable-due after one year (Note E)	-	-	570,987	570,987
Accumulated employee benefits (Note A 7)	-	-	33,262	33,262
Total Liabilities	<u>\$ 81,817</u>	<u>\$ 6,220</u>	<u>\$ 683,975</u>	<u>\$ 772,012</u>
Fund Balance/Net Assets				
Fund Balances-Unreserved				
Board Restricted - Capital Improvements	-	1,074,886	(1,074,886)	-
Unrestricted	1,261,812	-	(1,261,812)	-
Total Fund Equities	<u>1,261,812</u>	<u>1,074,886</u>	<u>(2,336,698)</u>	<u>-</u>
Total Liabilities and Fund Balance	<u>\$1,343,629</u>	<u>\$1,081,106</u>		
Net Assets				
Invested in capital assets-net of related debt			1,221,597	1,221,597
Unreserved				
Board restricted			1,075,413	1,075,413
Unrestricted			1,228,550	1,228,550
Total Net Assets			<u>3,525,560</u>	<u>3,525,560</u>

The accompanying notes are an integral part of this statement.

Loutit District Library
Statement of Governmental Fund Revenue, Expenditures, and Changes in Fund
Balance/Statement of Activities
Year ended June 30, 2005

	Modified Accrual Basis		
	General Fund	Capital Projects Fund	Debt Service Fund
Revenues:	\$ 1,578,608	\$ -	\$ -
Property taxes	29,666	-	-
State grants	54,708	18,207	-
Interest and rentals	20,016	-	-
Contributions	-	1,512	-
Pledge contributions	146,008	-	-
Fines and forfeits	6,794	-	-
Other revenue	1,835,800	19,719	-
TOTAL REVENUES			
Expenditures:	602,394	-	-
Salaries and wages	208,911	-	-
Employee benefits	130,448	-	-
Books and magazines (Note J)	32,608	-	-
Library supplies	38,936	-	-
Lakeland Library Cooperative	6,019	-	-
Equipment maintenance	121,453	-	-
Buildings and grounds	14,662	14,740	-
Professional fees	17,798	-	-
Insurance	2,550	-	-
Telephone	10,876	-	-
Printing and publishing	6,001	-	-
Tax collection fees	5,911	-	-
Postage	53,049	82,724	-
Capital outlay	-	-	-
Depreciation	8,257	-	-
Professional development	4,138	-	-
Memberships and dues	35,572	-	-
Transfers to other libraries	-	1,382	-
Refunds	-	-	-
Foregone pledges	-	-	-
Writeoff - pre-construction costs	4,541	403	-
Miscellaneous	-	-	-
Debt service:	-	-	76,512
Principal	-	-	35,587
Interest	1,304,124	99,249	112,099
TOTAL EXPENDITURES			
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	531,676	(79,530)	(112,099)
Other financing sources (uses)	-	348,719	112,099
Operating transfers in	(460,818)	-	-
Operating transfers out	(460,818)	348,719	112,099
Total other financing sources (uses)			
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	70,858	269,189	-
Fund balances - July 1	1,190,954	805,697	-
Fund balances - June 30	\$ 1,261,812	\$ 1,074,886	\$ -

The accompanying notes are an integral part of this statement.

Full Accrual Basis

<u>Adjustments</u>	<u>Statement of Activities</u>
\$ -	\$ 1,578,608
-	29,666
-	72,915
-	20,016
(1,512)	-
-	146,008
-	6,794
<u>(1,512)</u>	<u>1,854,007</u>
-	602,394
5,496	214,407
(121,470)	8,978
-	32,608
-	38,936
-	6,019
-	121,453
-	29,402
-	17,798
-	2,550
-	10,876
-	6,001
-	5,911
(56,395)	79,378
194,524	194,524
-	8,257
-	4,138
-	35,572
-	1,382
401,553	401,553
99,088	99,088
1,703	6,647
(76,512)	-
-	35,587
<u>447,987</u>	<u>1,963,459</u>
(449,499)	(109,452)
-	460,818
-	(460,818)
<u>-</u>	<u>-</u>
(449,499)	(109,452)
<u>1,638,361</u>	<u>3,635,012</u>
<u>\$ 1,188,862</u>	<u>\$ 3,525,560</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Reporting Entity

The Loutit District Library (District Library) was established on February 24, 1999, pursuant to Act No. 24 of the Public Acts of 1989 by the participating municipalities of Grand Haven Charter Township, City of Grand Haven, City of Ferrysburg, Robinson Township, and Grand Haven Area Public Schools. The District Library provides library services to the general public.

2. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the activities of the Loutit District Library.

The Statement of Activities demonstrates the degree to which the direct expenses of providing library services are offset by the revenues designated to fund those services. All of the revenues of the General Fund of the District Library are intended to pay for those direct expenses, except as designated by the Library Board.

3. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Collections from the 2004 Summer and Winter property taxes are considered to be revenues of the year ended June 30, 2005. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and claims and judgments are recorded only when payment is due.

Property taxes, pledged contributions, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Measurement Focus, Basis of Accounting, and Financial Statement Presentation-Cont.

recognized as revenue of the current fiscal period, when applicable. All other revenue items are considered to be available only when cash is received by the District Library.

The various funds are presented in these financial statements as follows:

General Fund - This fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the district library.

Capital Projects Fund - This fund is used to account for financial resources to be used for the acquisition and/or construction of major capital facilities.

Debt Service Fund - This fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

4. Capital Assets

Capital assets, which include property, plant and equipment, are reported in the Statement of Net Assets column in the government-wide financial statements. Capital assets are defined by the District Library as assets with an initial individual cost of \$1,000 or more and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Leasehold improvements	10 - 20 years
Collections	3 - 20 years
Equipment	7 years
Furniture and Fixtures	10 years

5. Budgets and Budgetary Accounting

The District Library follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. On or about June 1, the District Library submits to the general public a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

5. Budgets and Budgetary Accounting-Cont.

- b. A public hearing is conducted to obtain taxpayer comments.
- c. Prior to July 1, the budget is legally enacted through passage of a resolution.
- d. The District Library director is authorized to transfer budgeted amounts within funds within any activities, except for certain activities which require Library Board authorization.
- e. The budget for the general fund is adopted on a basis consistent with generally accepted accounting principles.
- f. Appropriations for all funds lapse at the end of the fiscal year.
- g. The budget has been adopted on a total fund basis.

Budgeted amounts are as originally adopted and as amended by the District Library Board as of June 30, 2005.

6. Property Taxes

Property taxes when levied attach as an enforceable lien on property. Summer taxes are levied on July 1 and are payable through September 14. Winter taxes are levied on December 1 and are payable through February 14. The property taxes are billed and collected by various municipalities, which then remit the District Library's designated portion on a semi-monthly basis. The District Library levied a tax of .9788 mills in the participating municipalities.

7. Compensated Absences

District Library employees earn vacation and sick leave in varying amounts based on length of service. Unused vacation pay and sick leave may accumulate and be carried over to a subsequent year, subject to restrictions. Management estimates that its current liability for unpaid vacation pay, sick leave and personal time is \$39,878 at June 30, 2005.

The noncurrent portion of accumulated sick pay liability is reflected under long-term liabilities in the Statement of Net Assets. The amount is \$33,262 as of June 30, 2005.

8. Encumbrances

Encumbrance accounting under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the District Library.

NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

9. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

10. Risk Management

The Loutit District Library is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries, as well as medical benefits provided to employees. The District Library has purchased commercial insurance for medical benefits claims and for claims relating to general liability, excess liability, physical damage (equipment, buildings and contents) and worker compensation. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

11. Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. All non-cash donations are recorded at their estimated fair market value as of the date of the contribution.

12. Cash Equivalents

The District Library considers all short-term investments with an original maturity of three months or less to be cash equivalents.

NOTE B - CASH

The District Library's cash at June 30, 2005 is reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>		<u>Total Primary Government</u>
	<u>General Fund</u>	<u>Capital Projects Fund</u>	
Cash	<u>\$1,328,814</u>	<u>\$1,080,579</u>	<u>\$2,409,393</u>

At June 30, 2005 the carrying amount of the District Library's deposits was \$2,409,393. The bank balance of the District Library's deposits was \$2,430,802. Of the bank balance, \$200,000 was covered by federal depository insurance and the remainder was uninsured.

Loutit District Library

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE C - CAPITAL ASSETS

Capital asset activity of the District Library for the year ended June 30, 2005 was as follows:

	Balance July 1 2004	Addi- tions	Dele- tions	Balance June 30 2005
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$1,061,845	\$ -	\$ -	\$1,061,845
Building (in progress)	<u>99,088</u>	<u>19,002</u>	<u>99,088</u>	<u>19,002</u>
	1,160,933	19,002	99,088	1,080,847
Capital Assets Being Depreciated				
Leasehold improvements	74,917	25,443	-	100,360
Collections	1,815,719	121,470	88,431	1,848,758
Equipment	190,688	11,950	24,558	178,080
Furniture and Fixtures	<u>140,057</u>	<u>-</u>	<u>-</u>	<u>140,057</u>
Subtotal	<u>2,221,381</u>	<u>158,863</u>	<u>112,989</u>	<u>2,267,255</u>
Less Accumulated Depreciation for				
Leasehold improvements	7,825	5,018	-	12,843
Collections	1,121,494	174,647	88,431	1,207,710
Equipment	124,341	14,608	22,855	116,094
Furniture and Fixtures	<u>138,367</u>	<u>251</u>	<u>-</u>	<u>138,618</u>
Subtotal	<u>1,392,027</u>	<u>194,524</u>	<u>111,286</u>	<u>1,475,265</u>
Net Capital Assets Being Depreciated	<u>829,354</u>	<u>(35,661)</u>	<u>1,703</u>	<u>791,990</u>
Governmental Activities Total				
Capital Assets - Net of Depreciation	<u>\$1,990,287</u>	<u>\$ (16,659)</u>	<u>\$100,791</u>	<u>\$1,872,837</u>

NOTE D - PENSION PLANS

The District Library participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all eligible employees of the District Library. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, MI 48917.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE D - PENSION PLANS - CONTINUED

Employer contributions are not required until the funded ratio is at a level below 110%. As of December 31, 2004, the funded ratio for the District Library was at 84.2%. Employer contributions at 13.72% and 12.03% of current monthly payroll are scheduled to commence in July, 2005 and 2006, respectively in order to bring the funded ratio levels up to the mandated ratio. These amounts were obtained from the actuarial reports provided by MERS dated December 31, 2003 and 2004.

For the year ended June 30, 2005, the District Library was required to make employer contributions at 13.89% of monthly payrolls to MERS totalling \$56,207. The required contribution was determined by actuarial valuation at December 31, 2003, using the entry age normal cost method. The actuarial assumptions include (a) 8% investment rate of return (net of administrative expenses) (b) merit and longevity salary increases ranging from 0% to 8.4% per year and 4.5% per year cost-of-living adjustments. The actuarial value of MERS assets is determined using techniques that smooth the effects of short term volatility in the market value of investments over a five-year period. The District Library's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll over a 30 year period.

Three Year Trend Information as of December 31 (date of the actuarial valuation report) follows:

	<u>2002</u>	<u>2003</u>	<u>2004</u>
Annual Pension Cost (paid through December 31)	\$ 0	\$ 27,110	\$ 53,308
Percentage of APC Contributed	100	100	100
Net Pension Obligation	\$ 0	0	0
Actuarial Value of Assets	\$ 441,332	499,658	592,395
Actuarial Accrued Liability (AAL)	\$ 531,020	618,976	703,197
Unfunded AAL (UAAL)	\$ 89,688	119,318	110,802
Funded Ratio	83.1	80.7	84.2
Covered Payroll	\$ 382,664	404,889	453,631
UAAL as a Percentage of Covered Payroll	23.4	29.6	24.4

Deferred Compensation Plan

The District Library has an IRC Section 457 deferred compensation pension plan in which all eligible employees may elect to participate. The District Library will match employee contributions up to 2% of gross wages. The amount of employer contributions for the year ended June 30, 2005, was \$6,325.

NOTE E - DEBT

This General Obligation Note Payable was incurred for the purchase of land for the

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE E - DEBT - CONTINUED

possible construction of a new library building. It is an unsecured installment note from a bank. The full faith and credit of the District Library is pledged for its repayment.

The installment note activity for the year ended June 30, 2005 can be summarized as follows:

<u>Governmental Activities</u>	<u>Interest Rate</u>	<u>Principal Matures</u>	<u>Beginning Balance</u>	<u>Additions (Reductions)</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
2002 Land Installment Note	4.89%	5-01-12	\$727,752	\$(76,512)	\$651,240	\$80,253

Annual debt service requirements to maturity for the above obligation are as follows:

<u>Year End June 30</u>	<u>Governmental Activities Principal</u>	<u>Interest</u>
2006	\$ 80,253	\$ 31,846
2007	84,178	27,921
2008	88,294	23,805
2009	92,612	19,487
2010	97,140	14,959
2011-2012	<u>208,763</u>	<u>15,434</u>
Total	<u>\$651,240</u>	<u>\$133,452</u>

NOTE F - PLEDGES RECEIVABLE - CAPITAL PROJECTS FUND

Pledges receivable at June 30, 2005 are as follows:

Pledges receivable (net) - June 30, 2004	403,592	
Pledges made - 2004-2005	<u>-</u>	403,592
Pledges received - 2002-2003	1,512	
- 2003-2004	-	
- 2004-2005	<u>-</u>	<u>1,512</u>
		402,080
Less:		
Foregone pledges		<u>401,553</u>
Pledges receivable		<u>\$ 527</u>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE F - PLEDGES RECEIVABLE - CAPITAL PROJECTS FUND-CONTINUED

These pledges receivable are also recorded as deferred revenues in the liabilities section of the Governmental Funds Balance Sheet in accordance with the modified accrual basis of accounting. The deferred revenues are eliminated in the conversion to full accrual basis of accounting on the Statement of Net Assets on page 8.

NOTE G - INTERFUND OPERATING TRANSFERS

Details of interfund operating transfers at June 30, 2005, are as follows:

<u>Fund</u>	<u>Operating Transfers In</u>	<u>Fund</u>	<u>Operating Transfers Out</u>
Capital Projects	\$ 348,719	General	\$ 460,818
Debt Service	<u>112,099</u>		
	<u>\$ 460,818</u>		<u>\$ 460,818</u>

NOTE H - DISTRICT LIBRARY AGREEMENT

The District Library entered into an agreement with local participating municipalities on February 24, 1999. Among other things, the Agreement provides for the District Library to pay the City of Grand Haven an amount equal to the Transfer Value of the Assets (as defined in the Agreement) if the District Library relocates, without City consent, its main library outside the City limits within the next 150 years. This obligation would be funded only on the date on which the District Library transfers its operations out of the City. The amount of the Transfer Value, as determined by formula, is subject to adjustment as of the January 1 preceding the date of relocation. The amount of the Transfer Value was determined to be \$5,551,077 as of June 30, 2005.

The District Library has a lease agreement with the City of Grand Haven which provided for a one-time rent payment of \$1 for the use of the existing library building. This lease expires in the year 2148. The District Library is responsible for its own maintenance, repairs, insurance coverage and utilities.

NOTE I - DESIGNATED FUND AGREEMENT

The District Library entered into an agreement with the Grand Haven Area Community Foundation on September 25, 2001, whereby the District Library transferred \$2,000 to the Foundation.

Loutit District Library

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE I - DESIGNATED FUND AGREEMENT - CONTINUED

The purpose of the District Library establishing this endowment fund was to provide funding for the support of the Loutit District Library.

Distributions may be made only from net appreciation, realized and unrealized, at the request of the District Library Advisory Committee, subject to Foundation approval and certain conditions. The Advisory Committee may also request that a portion or all of the investment return be invested in the Fund. The District Library did not receive any distributions from the Endowment Fund during the past fiscal year.

The value of this designated fund was \$3,310 as of June 30, 2005.

The District Library also has a designated fund at the Grand Haven Area Community Foundation, the purpose and use of which is to provide funding for expansion and/or renovation of Loutit District Library. This fund is called the "Loutit District Library Building Fund".

Distributions may be made from Fund income or principal at the request of the Advisory Committee, subject to Foundation approval and certain conditions. The Advisory Committee may also request that a portion or all of the investment return be invested in the Fund. The District Library did not receive any distributions from the Building Fund during the past fiscal year.

The value of this designated fund was \$5,728 as of June 30, 2005.

NOTE J - CAPITALIZED BOOKS

The District Library generally capitalizes its purchases of Collection materials, with the exception of periodicals, in the Statement of Net Assets. The District Library expended \$130,448 (less \$121,470 capitalized in 2005) and \$133,807 (less \$124,253 capitalized in 2004) for books and magazines purchases for the years ended June 30, 2005 and 2004, respectively.

NOTE K - SUBSEQUENT EVENT - PURCHASE OF LAND AND BUILDING

The District Library entered into an agreement with the City of Grand Haven to purchase the library property and building located at 407 Columbus, Grand Haven, Michigan for \$1 and the adjacent parking lot for \$200,000. The closing date was August 24, 2005 and the total purchase price, including closing costs, was \$201,002. The lease agreement with the City was terminated simultaneously with the purchase of the property.

REQUIRED SUPPLEMENTAL INFORMATION

Loutit District Library
Budgetary Comparison Schedule-General Fund
Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
Revenues:				
Property taxes	1,582,620	1,613,715	1,578,608	(35,107)
State grants	19,200	19,200	29,666	10,466
Interest and rentals	34,200	58,400	54,708	(3,692)
Contributions	15,000	21,330	20,016	(1,314)
Fines and forfeits	144,855	144,425	146,008	1,583
Other revenue	1,200	12,420	6,794	(5,626)
TOTAL REVENUES	1,797,075	1,869,490	1,835,800	(33,690)
Expenditures:				
Salaries and wages	610,882	610,882	602,394	8,488
Employee benefits	231,923	235,792	208,911	26,881
Books and magazines	140,736	144,925	130,448	14,477
Library supplies	41,755	38,755	32,608	6,147
Lakeland Library Cooperative	40,380	40,380	38,936	1,444
Equipment maintenance	6,400	6,400	6,019	381
Buildings and grounds	126,115	157,665	121,453	36,212
Professional fees	16,550	14,845	14,662	183
Insurance	18,300	17,800	17,798	2
Telephone	2,500	2,500	2,550	(50)
Printing and publishing	12,000	12,000	10,876	1,124
Tax collection fees	6,560	6,010	6,001	9
Postage	6,000	6,000	5,911	89
Capital outlay	21,400	59,845	53,049	6,796
Professional development	11,700	8,700	8,257	443
Memberships and dues	3,685	4,385	4,138	247
Transfers to other libraries	35,230	35,230	35,572	(342)
Miscellaneous	4,140	5,060	4,541	519
TOTAL EXPENDITURES	1,336,256	1,407,174	1,304,124	103,050
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	460,819	462,316	531,676	69,360
Other financing sources (uses)				
Operating transfers in	-	-	-	-
Operating transfers out	(460,819)	(460,819)	(460,818)	1
Total other financing sources (uses)	(460,819)	(460,819)	(460,818)	1
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	-	1,497	70,858	69,361
Fund balances - July 1	1,190,954	1,190,954	1,190,954	-
Fund balances - June 30	1,190,954	1,192,451	1,261,812	69,361

The accompanying notes are an integral part of this statement.

Loutit District Library
 Budgetary Comparison Schedule-Capital Projects Fund
 Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
Revenues:				
Contributions	\$ 1,000	\$ 1,450	\$ 1,512	\$ 62
Interest	<u>4,100</u>	<u>19,450</u>	<u>18,207</u>	<u>(1,243)</u>
TOTAL REVENUES	5,100	20,900	19,719	(1,181)
Expenditures:				
Professional fees	2,000	20,000	14,740	5,260
Printing and Publishing	1,000	1,000	-	1,000
Fund raising	2,000	2,000	-	2,000
Postage	250	250	-	250
Capital outlay	65,000	96,700	82,724	13,976
Refunds	-	1,385	1,382	3
Miscellaneous	<u>1,000</u>	<u>500</u>	<u>403</u>	<u>97</u>
TOTAL EXPENDITURES	<u>71,250</u>	<u>121,835</u>	<u>99,249</u>	<u>22,586</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(66,150)	(100,935)	(79,530)	21,405
Other financing sources (uses)				
Operating transfers in	<u>348,719</u>	<u>348,719</u>	<u>348,719</u>	<u>-</u>
Total other financing sources (uses)	<u>348,719</u>	<u>348,719</u>	<u>348,719</u>	<u>-</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	282,569	247,784	269,189	21,405
Fund balances - July 1	<u>805,697</u>	<u>805,697</u>	<u>805,697</u>	<u>-</u>
Fund balances - June 30	<u>\$1,088,266</u>	<u>\$1,053,481</u>	<u>\$1,074,886</u>	<u>\$21,405</u>

The accompanying notes are an integral part of this statement.

Loutit District Library
 Budgetary Comparison Schedule-Debt Service Fund
 Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
Revenues:	\$ -	\$ -	\$ -	\$ -
TOTAL REVENUES	-	-	-	-
Expenditures:				
Principal on note	76,513	76,513	76,512	1
Interest expense	35,587	35,587	35,587	-
TOTAL EXPENDITURES	112,100	112,100	112,099	1
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(112,100)	(112,100)	(112,099)	1
Other financing sources (uses)				
Operating transfers in	112,100	112,100	112,099	(1)
Total other financing sources (uses)	112,100	112,100	112,099	(1)
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	-	-	-	-
Fund balances - July 1	-	-	-	-
Fund balances - June 30	-	-	-	-

The accompanying notes are an integral part of this statement.

CALVIN MEEUSEN COMPANY, C.P.A., PLLC

**CALVIN D. MEEUSEN
CERTIFIED PUBLIC ACCOUNTANT**

1014 S. BEACON BLVD. • GRAND HAVEN, MI 49417
(616) 846-6210 FAX (616) 846-5111

348 WAVERLY RD., SUITE 126 • HOLLAND, MI 49424
(616) 395-8477

September 14, 2005

Members of the Library Board
Loutit District Library
Grand Haven, Michigan

In connection with my examination of the balance sheet/statement of net assets of the Loutit District Library as of June 30, 2005 and the related statements of revenues, expenditures and fund balances/activities for the year then ended, I have reviewed the accounting policies and procedures employed by the District Library and the internal controls in effect. As a result of this review, I wish to make certain comments and recommendations.

I have examined the financial statements of the Loutit District Library for the year ended June 30, 2005, and have issued my report thereon dated September 14, 2005. As part of my examination, I made a study and evaluation of the system of internal accounting control of the Loutit District Library to the extent I considered necessary to evaluate the system as required by generally accepted auditing standards and the standards for financial and compliance audits contained in the U.S. General Accounting Office "Standards for Audit of Governmental Organizations, Programs, Activities and Functions". The purpose of my study and evaluation was to determine the nature, timing and extent of the auditing procedures necessary for expressing an opinion on the entity's financial statements. My study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

The management of the Loutit District Library is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting procedures.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

My study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, I do not express an opinion on the system of internal accounting control of the District Library taken as a whole. However, I noted certain matters that I consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or

operation of the internal control structure that, in my judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

The first reportable condition is that an adequate internal control structure does not exist for reliance thereon because of the small size of the entity resulting in a lack of segregation of duties due to the limited number of accounting personnel.

The second reportable condition is that computer passwords are not required in order to gain access to the accounting software program. Open access to computer software could enable unauthorized use/manipulation of the computer system. The required use of user passwords would help ensure that only authorized personnel have access to the accounting records.

I do not believe that either of the reportable conditions are material weaknesses.

This report is intended solely for the use of management and the State of Michigan, Michigan Department of Treasury, and should not be used for any other purpose.

The size of the District Library's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties. This situation dictates that the Library Board continue to take an active role in the financial affairs of the District Library to provide oversight and independent review functions.

A budget is required by the State Constitution and by the State Statutes and is the only basis for spending. A local unit cannot budget expenditures in excess of anticipated revenues nor can it overspend its adopted budget unless a change in the budget is approved by the Library Board. The budget has been adopted on a total fund basis by the Library Board. During the past fiscal period, the Library Board overspent in some line items and underspent in others. To the extent possible, the Library Board should amend the budget to cover anticipated deficiencies.

In conclusion, I wish to state that I have had excellent cooperation from all personnel involved in the recordkeeping area and look forward to more of the same from them in the future. These comments and recommendations are intended to be only of a constructive nature as I am sure they will continue to improve your accounting system. I would be available at any time in order to discuss these comments and recommendations.

Respectfully submitted,

A handwritten signature in cursive script that reads "Calvin D. Meeusen Company C.P.A. PLLC".

Calvin D. Meeusen, C.P.A.